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ABSTRACT

Numerous changes, additions, and refinements have been made in Federal student aid programs. Specifically, since 1965, nine separate laws have been enacted involving significant changes in the Guaranteed Student Loan (GSL) program. These numerous and continuous changes to the program contribute to confusion, complexity, and misunderstanding by students, schools, and lenders, and affect the administration of the program itself. Proper management of the program could be more readily achieved if stability and continuity in the legislation were introduced. (Author)

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Statement by
Honorable T. H. Bell
U.S. Commissioner of Education
Department of Health, Education, and Welfare
Before the
Permanent Subcommittee on Investigations
Committee on Government Operations
United States Senate
Thursday, November 20, 1975
2:00 p.m.

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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S H O R T S T A T E M E N T

HE 007 081

Mr. Chairman and Members of the Subcommittee:

Over the past ten years numerous changes, additions and refinements have been made in Federal student aid programs--including the Education Amendments of 1972 which created the Basic Educational Opportunity Grant (BEOG) program and the State Student Incentive Grant (SSIG) program, and converted the Educational Opportunity Grant (EOG) program into a new program designed to supplement BEOG. Specifically, since 1965, nine separate laws have been enacted which have involved significant changes in the Guaranteed Student Loan (GSL) program.

The six most significant statutes are reflected on the attached chart with the major provisions of each shown in somewhat abbreviated fashion (Exhibit A). These numerous and continuous changes to the program contribute to confusion, complexity, and misunderstanding by students, schools and lenders, and affect the administration of the program itself. Proper management of the program could be more readily achieved if stability and continuity in the legislation were introduced. We know that all the legislation authorizing these programs expires this year. It is my hope that Congress will work to simplify these programs rather than expand this enormous tangle of legislation. Since these hearings have not touched at length on the administrative problems created by the legislation we must administer, I would like to discuss this factor in my presentation today. I suggest that at least some measure of the problems you are concerned about is caused by legislative changes which permit and even encourage extensive participation by many institutions which should not be in the programs.

Growth of the Programs

All of the various Federal student aid programs have expanded dramatically over the past ten years. For example, the GSL program is now of tremendous size--it is the largest single contributor to student financial aid provided by the Office of Education. Over five million students attending some 8,700 educational institutions have secured more than $8 billion in loans from approximately 19,000 private lenders. Only one-half of the program is Federally insured. The remainder of funds are guaranteed by 27 State and private agencies, all but two of which are 80 percent reinsured against loss by the Federal Government. It is important to emphasize at this point that we are talking about private capital under a Federal guarantee of repayment.

Any program of this size and nature involving millions of students, thousands of lending and educational institutions, and several different agencies has numerous day to day operational and administrative requirements which must be met. Failure to meet these needs has led to the problems we are currently experiencing in the program.

Limited staff resources relative to administrative responsibilities

The program grew at an explosive rate. The attached charts show the dollar value and number of commitments made since the program's inception in Fiscal Year 1965 (Exhibits B and C). Cumulative volume reached $2.2 billion by the end of Fiscal Year 1970 and more than doubled two years later to $4.6 billion, and as of this date is over $8.8 billion. While the program grew, staffing to manage the program lagged significantly behind management requirements. An appreciation of these staffing

deficiencies can be gained by comparing the attached chart on authorized staffing levels (Exhibit D) with the charts depicting program growth. As we appraise the past record of the Office of Education to manage this program, it must be kept in mind that when the "floodgates" were opened in 1969 to allow virtually every kind of institution--public, private, profit, non-profit, non-collegiate, and correspondence schools--into the program, we had only 50 persons on the staff. Keep in mind that with this action, Congress put us in the loan business in every city and town in the United States. Compare this staff with what any nationwide billion-dollar business would have out in the private sector. This impossible demand on a small staff must be kept in mind as our performance is appraised and charges of mismanagement and bungling are leveled against us. Staffing of significance did not begin to become available until 200 positions were authorized with the 1974 Supplemental Appropriation in June of 1974. It is clear that neither we nor the Congress recognized the size and complexity of this program and the potential problems that would occur by not providing adequate staffing and resources.

Until enactment of the Education Amendments of 1972, any educational institution which met the statutory definition of "eligible institution" was automatically eligible for participation in the Guaranteed Student Loan program. There was no statutory basis for regulating the practices of educational institutions nor for terminating a school or college's eligibility unless they no longer met the statutory eligibility requirements. Many of the defaults now being experienced in the GSL program are attributable

to loans made during that period. However, the Education Amendments of 1972 authorized the Commissioner to issue regulations setting forth standards and requirements that educational institutions had to meet in order to participate as eligible educational institutions (i.e., for their students to receive loans). Educational institutions that do not comply with these regulations are subject to having their eligibility limited, suspended, or terminated.

We would support the extension of this provision to the other student financial aid programs. We would not favor limiting the applicability of this provision only to certain categories of educational institutions, but we would advocate authority to make rules that apply only to institutions which are obviously high risks from the standpoint of accountability for Federal funds.

The authorizing legislation for the Guaranteed Student Loan program generally places lenders in two broad categories: regulated and non-regulated. By law, those lenders which are subject to both the examination and supervision of a State or Federal agency may participate as lenders. This category includes commercial banks, savings and loan associations, credit unions and mutual savings banks, all of which are subject to periodic examination and supervision as lending institutions.

The statute also permits State agencies, educational institutions, pension funds and insurance companies to qualify as lenders. However, none of these lenders are subject to examination and supervision as lenders by any State or Federal agency which has responsibility for lending institutions; therefore, it has been necessary for the Office of Guaranteed Student Loans to assume that function in cooperation with the HEW Audit

Agency. Proposed regulations, which are currently being developed for publication soon in the Federal Register, will strengthen criteria which such nonregulated lenders will have to meet to qualify for both initial and continued program eligibility. These regulations will be more stringent than those for lenders who are already subject to scrutiny as lenders by Federal and State bank examiners. Once they are effective, these provisions should do much to improve the quality of all lenders participating in the program.

Current Status

The problems we now face in this area are being addressed by the Office of Education as best we can with our limited resources. But keep in mind the volume; it is a multi-billion dollar program assisting over 5 million students through 19,000 lending institutions.

The new staffing authorized for the GSL program together with the reorganization and new management brought into this program in the last year have enabled us to begin to identify these and other problems and begin to take necessary actions. The remainder of my testimony outlines the many steps taken by management during the past year to improve the administration of all of our student assistance programs.

Guaranteed Student Loan Program

In order to more effectively manage the GSL program, we have employed a new Associate Commissioner who has been on the job for a little more than a year. We have transferred the program to the Deputy Commissioner for Management. New management, established in the past year, has been working to end most of these abuses.

Following are five significant steps which we have taken:

1. Design of a new data management system. During the past year a new system concept has been approved and is currently being developed. This system establishes what we call "front-end control" (i.e., control of actual disbursements to schools) and "rear-end control", which deals with pre-claims, claims and collections. A pilot of the "rear-end" system is in operation today in the San Francisco region. Incidentally, the regional GAO personnel have been consulted by our data division staff during this implementation. This system will have an immediate impact in establishing the crucial controls over inventory, receivables, etc. which GAO highlights as deficient. Inventory of all claims in every region is scheduled for completion by the spring of 1976. In addition, the system will:

--Require periodic disbursement, thereby preventing both students and lenders from skipping with the total amount of the loan at the outset.

--Allow validation of interest and special allowance payments due lenders, thereby eliminating a major problem which we have with the present billing system.

2. Refinement of the lender population. A sizeable problem faced by new management is that there are many lenders already in the program with poor performance records who do not wish to leave it. The problem

began years ago with the absence of proper guidance and control of lenders. We have faced this issue squarely and have begun to identify those lenders with poor performance trends. A completely new performance report was instituted, effective June 30, 1975. This report provides complete data on past due accounts in numerous categories. Although there has been some resistence by certain groups of lenders, we feel that this form is a basic tool for necessary collection of performance data.

The report requires unregulated lenders to give data on GSL paper sold, their repurchase responsibilities and the performance at point of sale on all outstanding loans. Many abuses in this program result from the special arrangements between lenders on school originated paper. These data will enable us to ferret out these situations and to take appropriate actions.

A tracking system for lenders, depicting the year to year movement of GSL outstandings, their past due status, lender financial statements, and other factors was required to visualize lender performance. A new lender trend record is the basis for selecting certain lenders for review by our compliance staff and HEW Audit Agency. Appropriate credit lines are being established for each non-regulated lender.

3. Creation of a compliance staff. New management has created an eleven-member compliance unit which reports directly to the Associate Commissioner which will audit and investigate lenders with adverse performance, initiate actions to limit, suspend, and terminate where appropriate, and

interface with other agencies to obtain proper actions. This staff will assist in the training of 46 examiners in our regional offices.

4. New regulations. In February of this year the Office of Education published a final regulation which governs lender performance in the Federal program and school performance in the entire GSLP. In accord with the authority given to the Commissioner by statute, schools and lenders which fail to meet required standards will have their participation limited, suspended or terminated.

Consumer protection requirements of these regulations require revisions in many school policies, changes in catalogs and enrollment contracts, and other adjustments.

5. Establishment of a proper collection organization. The addition of 109 loan collection positions authorized in June, 1974, has increased our collection staff to 135. The training necessary for these new employees has been accomplished through the development of a videotape instructional program and basic modular collection manual. Our data for the most recent fiscal year indicates that there is a 6:1 ratio between amounts collected and collection costs.

In addition to these administrative actions, we have also proposed certain legislative changes to the Congress. These recommendations, contained in S. 1229 introduced on March 18 of this year by Senators Javits, Beall, Schweiker, and Stafford, would amend the Higher Education Act and the Bankruptcy Act in a number of respects so as to decrease the number

of defaults. We testified before the Senate Subcommittee on Education on this measure on March 5, 1975, but no further action has been taken thus far. I should add that this is the second time we have proposed parts of this legislation and we are anxiously awaiting Congressional action.

Before I leave this subject I would like to make what I believe to be a critical point. Much has been made of the high default rates we've been experiencing in this program, both in the Congress and in the press. I respect these criticisms. However, I think we must remember that we are not dealing in the GSL program with blue-chip borrowers. Rather, we are dealing with some of the worst credit risks a lender sees: young, unemployed persons with few, if any, assets.

On a cumulative basis, through February 1974, 52 percent of the borrowers in the Federal program came from families with annual adjusted incomes below $6,000. Seventy-nine percent had family incomes less than $12,000.

If the purpose of this program is to accomplish certain social aims, I feel we must expect certain default rates. If the risks were not perceived to be greater than lenders are willing to take in their normal operation, there would be no need for a government guarantee. On the other hand, if we want to start making loans in this program on a sound business basis, we must recognize that we will substantially alter the mix of borrowers, thereby depriving many needy students of the opportunity to attend a postsecondary institution at all. It should be pointed out that for every dollar of private capital in the program, the cost to the Federal Government is 23 cents. (See Exhibit E).

College-Based Programs

I understand that in earlier testimony it was indicated that "HEW's compliance policies for these programs (the National Direct Student Loan, College Work-Study, and Supplemental Educational Opportunity Grants Programs) are based on faith in the integrity of the schools," with an implication that this showed a laxity or naivete on our part. I wish to affirm my support for the fact that our compliance policies are based on faith in the integrity of the participating schools, and point out that to do otherwise would not only be contrary to the basic principle that people are innocent until proven guilty, but would also require a staff in the OE headquarters and regional offices of staggering size. You must realize, however, that it is practically impossible to devise procedures which would prevent abuse by a person in a position of trust who is determined to misuse that trust.

However, we have encouraged and urged institutions to have regular audits done. The number of program audits received for the college-based programs during the past three fiscal years is:

FY 1973	1,822
FY 1974	2,379
FY 1975	2,345

In addition, the proposed regulations for the National Direct Student Loan and College Work-Study Programs, published in the Federal Register on October 14, 1975, require that institutions schedule program audits not less frequently than once every two years. If this requirement is contained in the final regulations, a similar requirement will be

inserted in the Supplemental Educational Opportunity Grants Program regulations.

A more comprehensive discussion of our audit situation for the campus-based programs is contained in my longer statement submitted for the record.

With regard to the general administration of these programs, it is quite true that official current regulations have not been available in a timely fashion. However, final current regulations for the administration of the Supplemental Educational Opportunity Grants Program were published in the Federal Register on October 21, 1974 and address in detail such subjects as institutional applications, application review and approval of request, the institutional agreement, fiscal procedures and records, and termination and suspension. Similar provisions have been included in the Notice of Proposed Rulemaking for the administration of the College Work-Study and National Direct Student Loan Programs. Final regulations on these programs should be issued within the next several months. We believe that the existence of current official regulations will assist in improving the operation of the campus-based programs.

Finally, I would like to mention some additional recommendations for legislation relating to institutional eligibility which we are considering.

Legislative Possibilities

We presently have under consideration--and expect to forward to Congress soon--proposed statutory language which, if enacted, would (among other points) strengthen the Office's ability to review the

performance of institutions relative to student aid programs. The proposed language would also provide for establishment of appropriate guidelines for institutional financial responsibility and the maintenance of student records, compliance with ethical standards for advertisement and recruitment of students, provision for fair and equitable tuition refund policies, and public disclosure of institutional performance statistics.

A second major feature of the proposals would be that of providing the Commissioner of Education with explicit authority to limit, suspend or terminate the eligibility status of postsecondary schools for all student aid programs should they be found to be in non-compliance with pertinent statutes or regulations.

A third major feature is that of providing greater flexibility in our available mechanisms for providing eligibility access to schools. In the vocational school sector, we would propose a broadening of our ability to rely upon the actions of competent State approval agencies in order to provide eligibility status for their schools. Furthermore, we see the need for a more comprehensive mechanism which can provide eligibility status for those schools which have no recognized accrediting or State approval agency available to them.

The final major feature of the statutory proposals on which we have been working is language which will upgrade and strengthen the role of the National Advisory Committee on Accreditation and Institutional Eligibility, which has emerged during the past several years as one of

our major instruments for bringing increased substance to our efforts in this area.

Essentially, Mr. Chairman, the statutory changes we envision would, if adopted by Congress:

--provide alternative channels for establishing institutional funding eligibility, thereby lessening unwarranted pressures on both accrediting agencies and institutions;

--create safeguards ensuring that the appropriate interests of students, institutions, the public and the Federal Governments are properly protected;

--provide the Commissioner of Education with reasonable authority designed to enable him to fulfill his explicit and implied stewardship responsibilities for administering programs of student financial aid;

--add specificity and flexibility to the range of remedies available in dealing with individual institutions and particular circumstances in the realm of funding eligibility.

Another effort to which we have been addressing ourselves in the eligibility picture is that of development of regulations. Presently, we are re-drafting, or drafting anew, regulations pertaining to eligibility determinations or procedures under present laws. Included among these are improved regulations dealing with the recognition of accrediting and State approval agencies.

In conclusion, I want to emphasize the enormous size and complexity of the student aid programs. They involve billions of dollars, millions of students, and thousands of schools and colleges. This presents us with an enormous administrative burden which I trust will be better understood as a result of these hearings.

SIGNIFICANT LEGISLATIVE CHANGES TO THE GSL

Exhibit A

Legislation	And Enactment	Change
PL 89-329 PL 89-287	11-8-1965 10-22-1965	Established the Guaranteed Student Loan Program for higher education students and vocational students
PL 89-698	11-29-1966	Expanded school eligibility to include foreign schools
PL 90-460	8-3-1968	Raised interest rates from 6% to 7%
PL 90-575		Created reinsurance authority; established one program to cover higher and vocational loan programs; authorized Federal insurance for interstate lenders
PL 91-95	11-22-1969	Created special allowance of up to 3%
PL 92-318	6-23-1972	Increased loan maximums; insured interest on new Federally insured loans; instituted needs analysis for Federal interest benefits; authorized regulation for school participation, and created the Student Loan Marketing Association
PL 93-269	4-18-1974	Eliminated needs test for students with adjusted family income below $15,000 on loan amounts up to $2,000 per year.

Exhibit B

CUMULATIVE COMMITMENT AMOUNTS
Fiscal Years 1966 through 1977

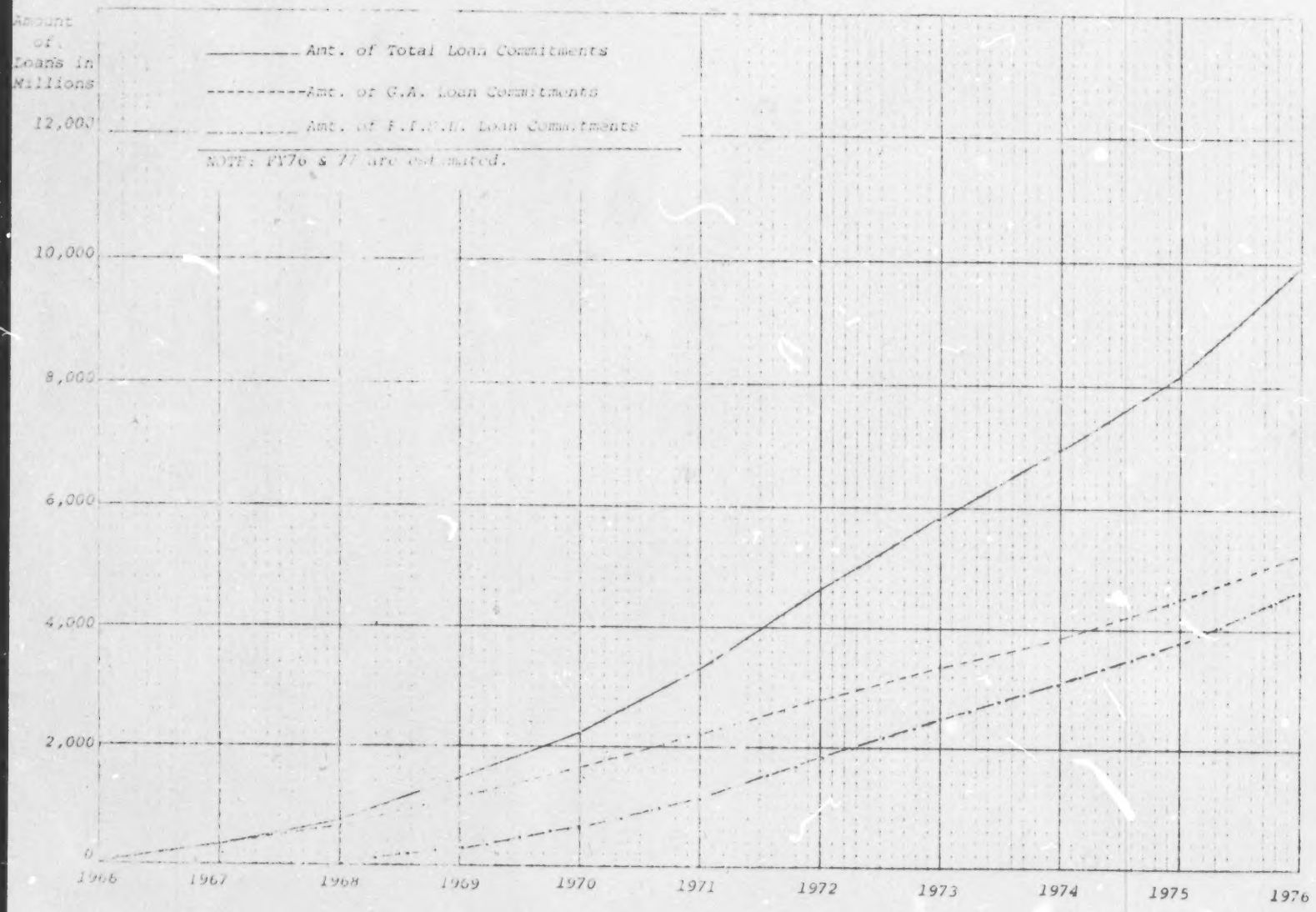

Exhibit C

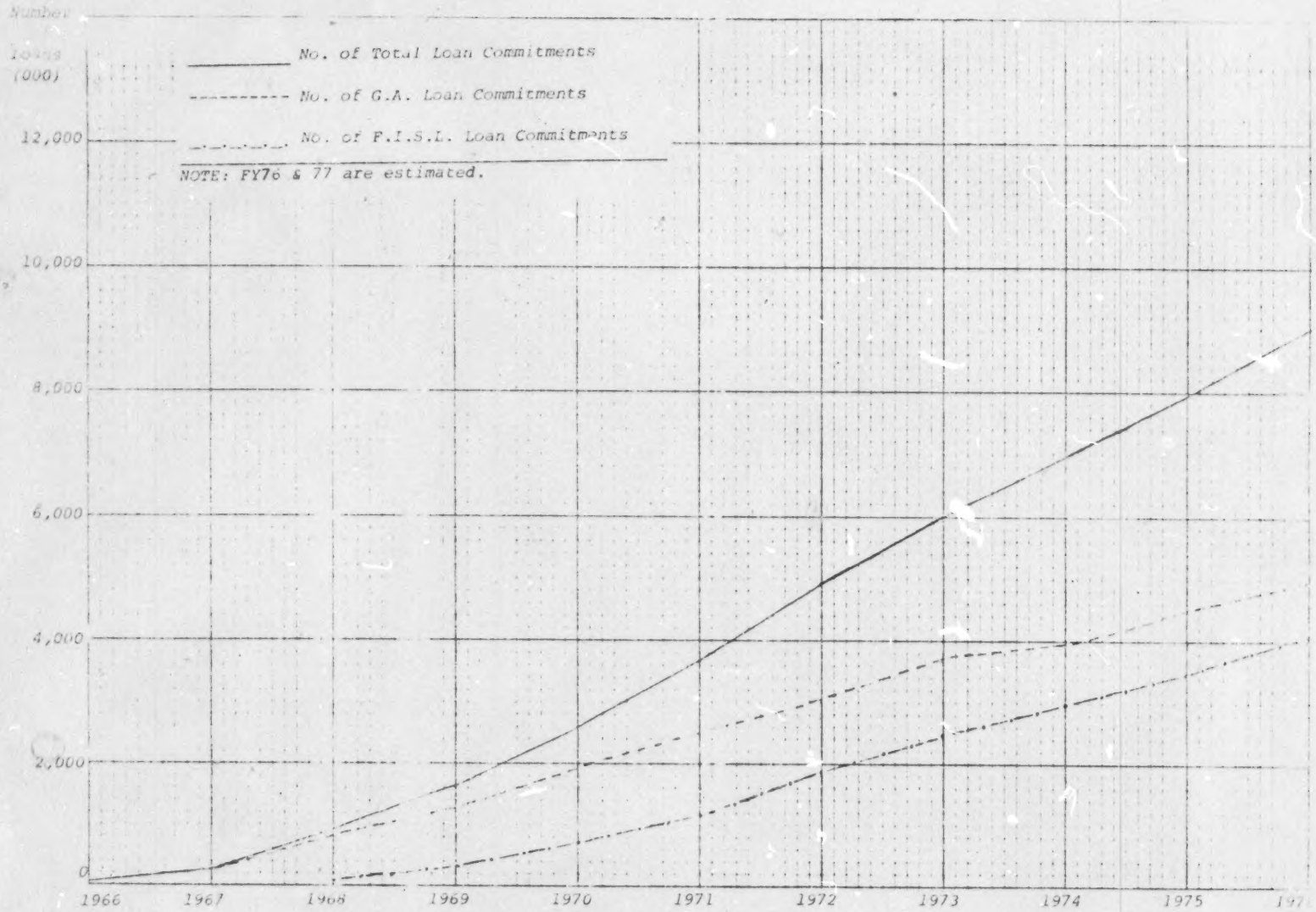
Number
Loans
(000)
No. of Total Loan Commitments
No. of G.A. Loan Commitments
No. of F.I.S.L. Loan Commitments
NOTE: FY76 & 77 are estimated.
12,000
10,000
8,000
6,000
4,000
2,000
0
1966
1967
1968
1969
1970
1971
1972
1973
1974
1975

Exhibit D

OFFICE OF GUARANTEED STUDENT LOANS

CHANGES IN AUTHORIZED STAFFING LEVELS
FISCAL YEARS 1966 THROUGH 1976

Fiscal Year	Central Office	Regional Office	Total
1966	40	0	40
1967	47	1	48
1968	46	4	50
1969	45	5	50
1970	51	11	62
1971	51	14	65
1972	63	58	121
1973	64	81	145
1974	127	261	388
1975	150	265	415
Add In 1976	15	42	57
Total In 1976	165	307	472

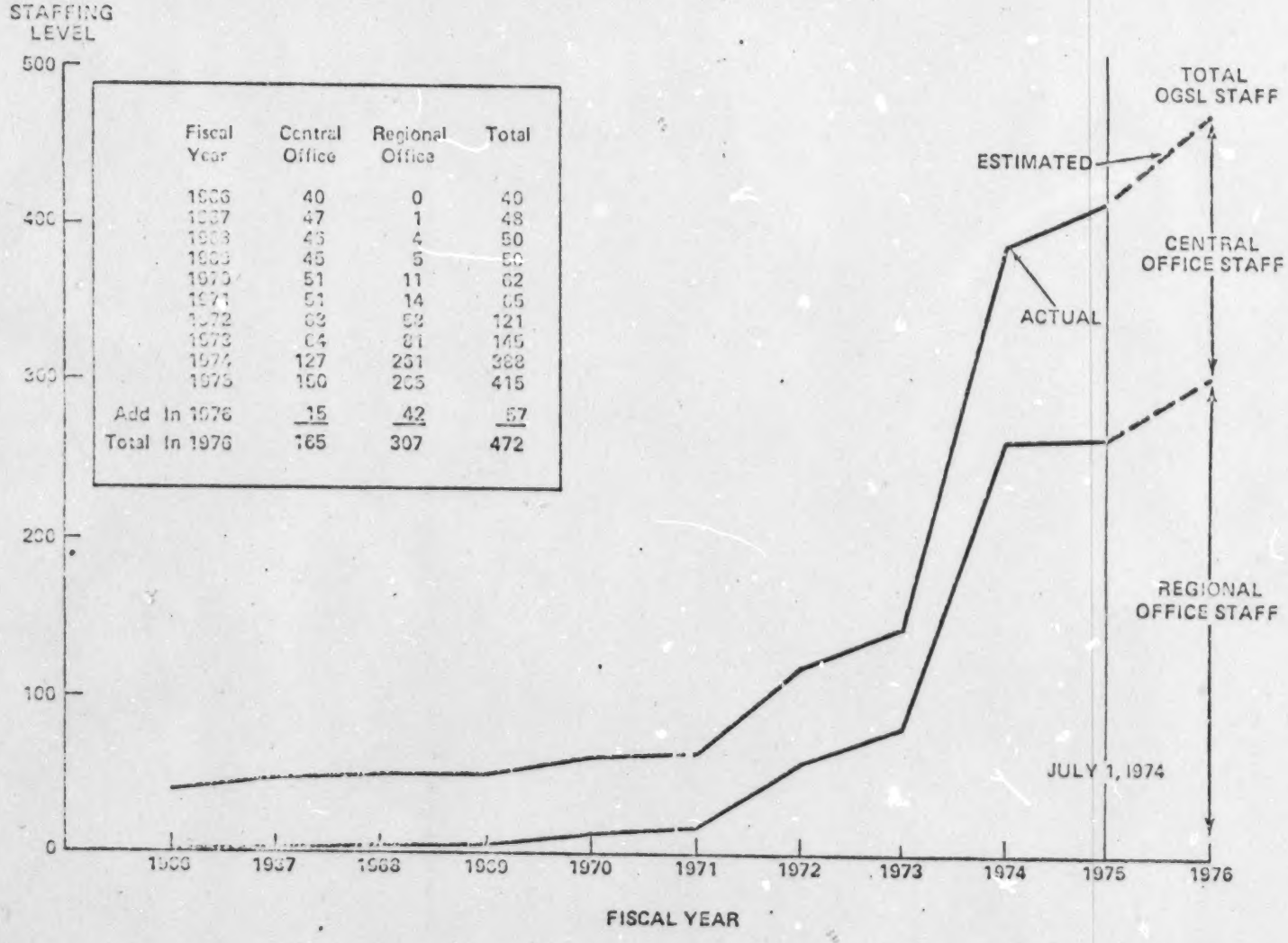

Exhibit E

COST OF OPERATING THE PROGRAM

Federal Expenditures--FY 1966 thru FY 1974 and thru FY 1975

	Thru 1974	Thru 1975
ulative Average Loan Value	$ 998	$ 1,037
ulative Number of Loans Disbursed	6,435,000	7,311,000
ulative Volume of Loans Disbursed	$6,425,000,000	$ 7,585,000,000
TS		
ulative Interest Benefits Payments	933,995,200	1,087,255,736
ulative Special Allowance Payments	174,728,759	259,030,226
ulative Claims Payments	209,146,320	322,146,000
ulative Salary and Expense Funds	25,011,000	44,011,000
SUB-TOTAL	$1,342,881,279	$1,712,442,962
IS INCOME FROM:		
ollections	13,941,847	25,406,127
nsurance Premiums	15,597,616	18,988,822
NET	$1,313,341,816	$1,668,048,013
age cost per loan	$204.09	$228.16
per dollar of disbursed loan	.20	.23
ars disbursed per dollar cost	$ 4.89	$ 4.55